



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

WENDY L. WATANABE
CHIEF DEPUTY

July 30, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **HOMES FOR LIFE FOUNDATION CONTRACT COMPLIANCE
REVIEW - A DEPARTMENT OF MENTAL HEALTH SERVICE
PROVIDER**

We have completed a contract compliance review of Homes For Life Foundation (HFLF or Agency) a Department of Mental Health (DMH) service provider.

Background

DMH contracts with HFLF, a private non-profit community-based organization, which provides services to clients in Service Planning Areas 3, 5, 7 and 8. Services include interviewing program participants, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Fourth District.

Our review focused on approved Medi-Cal billings. DMH paid HFLF between \$1.95 and \$2.52 per minute of staff time (\$11.70 to \$15.12 per hour). HFLF's contract was for approximately \$1.9 million for Fiscal Year 2005-06.

Purpose/Methodology

The purpose of the review was to determine whether HFLF provided the services outlined in their contract with the County. We also evaluated whether the Agency achieved planned service levels. Our monitoring visit included reviewing a sample of

"To Enrich Lives Through Effective and Caring Service"

HFLF's accounting records including billings and client charts. In addition, we interviewed staff from HFLF and interviewed a sample of clients or their parents/guardians. We did not review the Agency's expenditures or payroll costs because the Agency did not track the costs applicable to DMH programs.

Results of Review

HFLF used qualified staff to perform the services billed and the participants interviewed stated that the services they received. In addition, HFLF maintained documentation to support the services billed.

HFLF did not have a detailed Cost Allocation Plan to allocate overhead and other shared costs. In addition, the Agency reported program expenditures based on the maximum contract amount and not actual expenditures. The Agency combined the expenditures for all its programs. As a result, the Agency cannot identify the expenditures attributed to specific programs and may not have appropriately billed its expenditures to DMH's program. The contract requires the Agency to record transactions by program and develop a detailed Cost Allocation Plan that appropriately allocates shared costs.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with HFLF and DMH on May 31, 2007. In their attached response, the agency generally agreed with the results of our review and described their corrective actions to address the findings and recommendations contained in the report.

We thank HFLF management for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Carol M. Liess, Executive Director, HFLF
Public Information Office
Audit Committee

**DEPARTMENT OF AUDITOR-CONTROLLER
CONTRACT COMPLIANCE REVIEW
HOMES FOR LIFE FOUNDATION
FISCAL YEAR 2005-2006**

BILLED SERVICES

Objective

Determine whether Homes For Life Foundation's (HFLF or Agency) provided the services billed in accordance with their contract with Department of Mental Health (DMH).

Verification

We judgmentally selected 3,241 minutes from 43,177 service minutes approved of the Medi-Cal billings to DMH. We reviewed the Progress Notes, Assessments, and Client Care Plans maintained in the clients' charts for the selected billings. The 3,241 minutes represent services provided to 25 program participants.

Results

Overall, HFLF maintained documentation to support the service minutes billed and the clinical staff sufficiently documented the service in the Client Care Plans, Assessments and Progress Notes.

Recommendation

There are no recommendations for this section.

CLIENT VERIFICATION

Objectives

Determine whether the program participants received the services that HFLF billed DMH.

Verification

We interviewed six participants to confirm that they were clients of HFLF and that they received the services that the Agency billed DMH.

Results

The program participants interviewed stated that the services they received from the Agency met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

The objective of this section is to determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section, as the Agency does not provide for services that require staffing ratios for this particular program.

Recommendation

There are no recommendations for this section.

STAFFING QUALIFICATIONS**Objective**

Determine whether HFLF treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the Agency's personnel files for all 13 HFLF treatment staff for documentation to support their qualifications.

Results

Each employee possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS

Objective

Determine whether HFLF reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained HFLF's Fiscal Year 2005-06 Cost Report submitted to DMH and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

Results

Overall, HFLF provided the service levels indicated in the County contract. However, within the specific service categories the Agency did not provide Medication Support Services as required. The Agency offset the service reduction with increases in Mental Health and Crisis Intervention services. The Agency shifted the services without prior written authorization from DMH, as required.

Recommendation

1. **HFLF management obtain written authorization from DMH prior to deviating from contracted service levels.**

CASH / REVENUE

Objective

Determine whether cash receipts and revenue are properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash.

Verification

We interviewed HFLF management and reviewed the Agency's records. We also reviewed the Agency's June 2006 bank reconciliations for their accounts.

Results

HFLF properly recorded and deposited cash receipts timely. HFLF also completed timely reconciliations of its bank accounts. However, the Agency did not maintain sufficient internal controls over its business operations. Specifically, the bookkeeper writes checks, deposits revenue, records transactions, and reconciles the bank accounts. In addition, the bank reconciliations were not reviewed and approved by a second individual.

Recommendations**HFLF management:**

2. Establish adequate separation of duties over the cash handling procedures.
3. Ensure that bank reconciliations are reviewed and approved by a manager that does not have cash handling responsibilities.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether fixed assets and equipment charged to the Department of Mental Health (DMH) exist, are used for the program, and are adequately safeguarded.

Verification

We interviewed staff and requested a fixed assets and equipment listing.

Results

HFLF did not maintain an updated and complete listing of the Agency's fixed assets and equipment or perform an annual inventory. A proper listing would include the assigned individual, an item description, serial number or unique identifier, acquisition cost, sources of funding and the program(s) where the asset is used.

Recommendation

4. HFLF management maintain a listing of the Agency's fixed assets and equipment including the assigned individual, an item description, serial number or unique identifier, acquisition cost, sources of funding and the program(s) where the asset is used.

EXPENDITURES / COST REPORT**Objective**

Determine whether HFLF's Cost Report appropriately identifies program costs including direct and indirect costs. In addition, determine whether HFLF maintained a valid Cost Allocation Plan to appropriately allocate shared costs.

Verification

We interviewed management and reviewed the Agency's Cost Report and accounting records.

Results

HFLF did not have a detailed Cost Allocation Plan. In addition, HFLF did not track the program expenditures for each program. The Agency combined all its program expenditures. As a result, the Agency reported expenditures to DMH based on the maximum contract amount and not actual program expenditures. The contract requires the Agency to record transactions by program and develop a detailed Cost Allocation Plan that appropriately allocates shared costs.

HFLF indicated that their accounting system is not capable of tracking expenditures by program. They indicated that the most appropriate way for them to allocate costs until they implement a new accounting system is to allocate costs based on program revenues. However, using revenue does not ensure that costs are appropriately allocated to the programs that received services. The Agency needs to work with DMH to determine whether allocating costs based on program revenues is an acceptable alternative until the Agency can implement a new accounting system.

Recommendations**HFLF management:**

- 5. Establish cost centers for each DMH program and non-DMH programs and charge expenditures accordingly.**
- 6. Develop a detailed Cost Allocation Plan that appropriately allocates shared program expenditures.**
- 7. Allocate shared costs to each program on a monthly basis in accordance with the detailed Cost Allocation Plan.**
- 8. Work with DMH to determine DMH's share of the Agency's costs for FYs 2004-05 and 2005-06 and repay DMH for any over billed amounts.**



Homes for Life Foundation

8939 S. Sepulveda Boulevard, Suite #460, Los Angeles, CA 90045 Phone (310) 337-7417 Fax (310) 337-7413 www.homesforlife.org

July 9, 2007

County of Los Angeles
Department of Auditor-Controller
J. Tyler McCauley, Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

The response of Homes for Life Foundation to the Contract Compliance Review of the Department of Auditor-Controller is as follows:

BILLED SERVICES

Results

Overall, HFLF provided services as outlined in the County contract. The agency completed the Client Care Plans, Assessments and Progress Notes in accordance with program requirements.

Recommendation

There was no recommendation for this section.

CLIENT VERIFICATION

Results

The program participants interviewed stated that the services they received from the Agency met their expectations.

Recommendation

There was no recommendation for this section.

STAFFING LEVELS

Results

Test work was not performed, as the Agency does not provide services that require staffing ratios.

Recommendation

There was no recommendation for this section.

STAFFING QUALIFICATIONS

Results

Each employee possessed the qualifications required to deliver the services billed for.

Recommendation

There was no recommendation for this section.

SERVICE LEVELS

Results

Overall, HFLF provided service levels indicated in the County contract. However, within specific service categories the Agency did not provide Medication Support Services as required. The Agency offset the service reduction with increases in Mental Health and Crisis Intervention Services. The Agency shifted the service without prior written authorization from DMH as required

Recommendation

1. HFLF management obtain written authorization from DMH prior to deviating from contract service levels.

Plan of Correction

1. In the future, HFLF management will obtain written authorization from DMH prior to deviating from contracted services. As a matter of fact, Homes for Life's negotiation package submitted for the 2006-2009 contract period reflected that Medication Support Services will be earned through different service categories.

CASH / REVENUE

Results

HFLF properly recorded and deposited cash receipts in a timely manner. HFLF also completed timely reconciliations of its bank accounts. However, the Agency did not maintain sufficient internal controls over its business operations. Specifically, the bookkeeper writes checks, deposits revenue, records transactions and reconciles the bank accounts. In addition, the bank reconciliations were not reviewed and approved by a second individual.

Recommendation

2. Establish adequate separation of duties over cash handling procedures.
3. Ensure that bank reconciliations are reviewed and approved by a manager that does not have cash handling responsibilities.

Plan of Correction

2. The accounting focus of Homes for Life Foundation has remained to improve its internal control systems. HFLF will continue to ensure that proper segregation of duties is further implemented. Accounting tasks will be re-assigned among

accounting staff so that each transaction will become part of a system of checks and balances.

3. Bank reconciliations will be reviewed and approved by an accounting manager who does not have cash handling responsibilities.

FIXED ASSETS AND EQUIPMENT

Results

HFLF did not maintain an updated and complete listing of the Agency's fixed assets and equipment or perform an annual inventory. A proper listing would include an item description, serial number, acquisition cost, sources of funding and the program(s) where an asset is used.

Recommendation

4. HFLF management will maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.

Plan of Correction

4. HFLF currently maintains a log of laptop and cell phone equipment. However, additional computer equipment (desktops and servers) will now be tracked as recommended.

EXPENDITURE / COST REPORT

Results

HFLF did not have a detailed cost allocation plan. In addition, HFLF did not track program expenditures for each grant. The Agency combined its program expenditures. As a result, the Agency reported expenditures to DMH based on the maximum contract amount and not on actual program expenditures.

Recommendation

5. Establish cost centers for each DMH and non-DMH programs and charge expenditures accordingly.
6. Develop a detailed and equitable cost allocation plan for pooled costs.
7. Allocate pooled costs to each program on a monthly basis in accordance with the detailed Cost Allocation Plan.
8. Work with DMH to determine DMH's equitable share of the Agency's costs for FYs 2004-05 and 2005-06 and repay DMH for any over billed amounts.

Plan of Correction

5. The current accounting software used by Homes for Life Foundation does not have the capability of recording transactions by program/grant as required by DMH. However, management of HFLF are currently looking into acquiring a new accounting software that will produce information to comply with requirements of both services grants and housing development lenders, since Homes for Life Foundation is a services provider and a housing developer.

Based on the time required and complexity involved in researching and transitioning current accounting software to newer, more sophisticated accounting software, HFLF is targeting July 2008 as a date when the task will be completed. HFLF is also considering changing its fiscal year-ending to June 30 to match DMH's fiscal year to make the contract easier to manage.

6. Once HFLF researches and purchases a more sophisticated software that can record transactions by program as required under contract, HFLF will develop a detailed and equitable cost allocation plan for pooled costs.
7. Once the cost allocation plan is developed, HFLF will ensure that pooled costs are allocated to each program in accordance with the cost allocation plan on a monthly basis.
8. As explained in #5 above, Homes for Life Foundation currently uses accounting software that does not possess the capability of recording transactions by program, and is therefore unable to segregate expenditures by program. Because of this limitation, Homes for Life Foundation found the Percentage of Revenue as the most reliable basis for cost allocation.

Based on the Percentage of Revenue method, Homes for Life Foundation completed an analysis for FY 04-05, and determined that it over-billed DMH \$4,990. HFLF discussed this method with County auditors, and agreed that new accounting software can be substituted for current software so that a better method can be put in place.

For FY 05-06, the same method was applied, and based on a similar analysis; HFLF determined that \$944 was over-billed to DMH.

If this plan is acceptable, Homes for Life will refund DMH over-billed amounts within 30 days from the 6/19/07 Contract Compliance Review date.

If additional information is required, please feel free to contact me at (310) 337-7417

Sincerely,

A handwritten signature in black ink, appearing to read "Carol M. Liess", written over a horizontal line.

Carol M. Liess
Executive Director
Homes for Life Foundation

Cc: Supervisor Zev Yaroslavy, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knobe
Supervisor Michael D. Antonovich